

Message Text

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FM AMEMBASSY DACCA

TO SECSTATE WASHDC 1523

INFO AMCONSUL CALCUTTA

AMEMBASSY ISLAMABAD

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AMEMBASSY NEW DELHI

C O N F I D E N T I A L SECTION 1 OF 2 DACCA 3870

EO 11652: GDS

TAGS: EFIN, MPOL, BG

SUBJ: BANGLADESH BUDGET: DEFENSE EXPENDITURES

REF: DACCA 3294

SUMMARY: THE REVISED ESTIMATES OF THE NEW BUDGET SHOW THAT BDG
DEFENSE SPENDING NEARLY DOUBLED IN FY 75/76 OVER THE BUDGETED
LEVEL. IT IS TO GROW SOMEWHAT FURTHER IN FY 76/77. TOTAL DEFENSE
AND LAW AND ORDER EXPEDITURES IN 75/76 (REVISED ESTIMATES)
AMOUNTED TO ABOUT 2.4 PERCENT OF GDP AND 6.9 PERCENT OF TOTAL
REVISED BUDGET OUTLAYS. THE POST-MUJIB GOVERNMENTS APPEAR TO HAVE
SPENT THE BULK OF THE INCREASE ON LAW AND ORDER GENERALLY, HIGHER
PAY AND ALLOWANCES, THE CONSTRUCTION OF NEW FACILITIES SUCH AS
BARRACKS, BUT NOT ON IMPORTED WEAPONS. SO LONG AS MILITARY
LEADERS DOMINATE THE GOVERNMENT, DEFENSE SPENDING IS LIKELY TO
CONTINUE AT ITS PRESENT HIGHER LEVEL. GIVEN GENERAL ZIA'S
POST-NOVEMBER 7 COMMITMENT TO IMPROVE THE LOT OF THE SEPOYS, THE
GOVERNMENT'S DEPENDENCE ON THE MILITARY, THE PROBLEMS WITHIN THE
MILITARY, AND THE SHORT-RUN OPPORTUNITIES PRESENTED THE BDG MILI-
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TARY LEADERS TO SPEND MUCH MORE, THIS INCREASE IS SURPRISINGLY RE-

STRAINED. HOWEVER, THEIR CONCERNS WITH SECURITY AND THE SEARCH FOR ARMS FROM ABROAD AND FOREIGN FUNDS TO FINANCE THEM CONTINUE, WITH A POTENTIAL FOR FURTHER BUDGET INCREASES IN THE FUTURE. END SUMMARY.

1. THE TOTAL AMOUNT SPENT ON DEFENSE, POLICE AND RELATED LAW AND ORDER ITEMS (INCLUDING THE JATIYO RAKHI BAHINI -SEE BELOW) DURING 1975/1976 (JULY TO JUNE) AT \$145 MILLION (REVISED ESTIMATES) EXCEEDED THE BUDGET ESTIMATES OF \$99 MILLION BY 47 PERCENT. THIS FIGURE IS BUDGETED TO RISE A FURTHER 6 PERCENT TO \$154 MILLION IN 1976/1977. THE MAJOR COMPONENT OF THIS EXPENDITURE IS DEFENSE SERVICES, WHICH VIRTUALLY DOUBLED FROM \$50 MILLION (BE) OR 2.9 PERCENT OF TOTAL ESTIMATED BUDGET EXPENDITURES TO \$96.5 MILLION (RE) (4.6 PERCENT) IN 1975/1976 AND IS TO GROW TO A BUDGETED \$103.5 MILLION IN 1976/1977 (4.9 PERCENT). AS A PROPORTION OF CURRENT NONDEVELOPMENT BUDGET EXPENDITURES, DEFENSE SERVICES RISES FROM 14.5 PERCENT IN 1975/1976(BE) TO 21.3 PERCENT (RE) AND THEN DECLINES SLIGHTLY TO 20.4 PERCENT IN 1976/1977 (BE).

2. DEFENSE SERVICES IS A SINGLE LINE ITEM IN THE BUDGET AND NO BREAKDOWN OF EXPENDITURES IS PUBLISHED. SOME MAJOR ELEMENTS IN THE INCREASES CAN BE IDENTIFIED HOWEVER. THESE INCLUDE:

(A) JATIYO RAHI BAHINI. THIS NOW DISBANDED PARA-MILITARY FORCE WAS BUDGETED SEPARATELY FROM DEFENSE SERVICES TO RECEIVE \$15.1 MILLION DURING 1975/1976. THERE IS NO SEPARATE LINE ITEM FOR THE JRB IN THE 1975/1976 REVISED ESTIMATES, OR IN THE 76/77 BUDGET. ALMOST ALL JRB MEMBER WERE TAKEN INTO THE REGULAR ARMY WHEN THE JRB WAS DISBANDED FOLLOWING THE AUGUST 15, 1975 COUP D'ETAT. THUS, \$15 MILLION OF THE INCREASE IN DEFENSE SERVICES MAY BE ATTRIBUTED TO THIS CHANGE.

(B) RAISING OF NEW DIVISIONS. THE ARMY HAS RAISED TWO DIVISIONS WITHIN THE PAST YEAR, THE NINTH AND ELEVENTH WITH CONSEQUENT REORGANIZATION OF OLDER BRIGADES AND THE CREATION OF NEW ONES. MUJIB HAD REJECTED PLANS FOR THE CREATION OF THE NEW DIVISIONS AND NO FUNDS WERE APPROPRIATED. THE PROPOSALS WERE IMPLEMENTED AFTER THE JRB WAS DISBANDED, HOWEVER. A THIRD NEW DIVISION MAY HAVE ALREADY BEEN RAISED IN 1976/1977, AS MAJOR GENERAL ZIA UR RAHMAN INAUGURATED THE HEADQUARTERS OF A NEW DIVISION IN CHITTAGONG JULY 27.

(C) CONSTRUCTION OF NEW FACILITIES. ACCORDING TO THE JT. CONFIDENTIAL

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SECRETARY (REVENUE) IN FINANCE MINISTRY, CONSIDERABLE CONSTRUCTION IN THE VARIOUS CANTONMENTS WAS STARTED DURING THE YEAR. THIS CONSTRUCTION ACTIVITY FOLLOWS GENERAL ZIA'S POST-NOVEMBER 7 COMMITMENT TO IMPROVE CONDITIONS, INCLUDING HOUSING AND HOSPITAL FACILITIES ARE BEING CONSTRUCTED IN CANTONMENTS. IN ADDITION, THE NAVAL BASE, CHITTAGONG, IS BEING EXPANDED AND A NAVAL TRAINING FACILITY CONSTRUCTED AT KAPTAI LAKE. ONE SOURCE PLACED THE COST OF NEW HOSPITALS ALONG AT TAKA 200 MILLION (\$13.3

MILLION), BUT NOTED THAT PART OF THIS COST COULD BE SHOWN IN HEALTH MINISTRY BUDGET.

(D) BACK PAY. CAREER MILITARY OFFICERS AND MEN FORCED TO LEAVE DURING THE MUJIB PERIOD AND REINSTATED AFTER AUGUST 15 RECEIVED THEIR BASE PAY RETROACTIVELY FROM THEIR DATE OF DISCHARGE. ALSO, A PORTION OF THE PAY AND ALLOWANCES DUE MILITARY REPATRIATES FROM PAKISTAN WAS NOT PAID UNTIL FY 76.

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3. POLICE AND LAW ENFORCEMENT. THIS ITEM COMPRISES POLICE, BANGLADESH RIFLES, ENFORCEMENT DEPARTMENT, AND BANGLADESH ANSARS (VILLAGE DEFENSE FORCES). REVISED FY 76 ESTIMATES FOR THESE FOUR GRANTS, PLUS ADMINISTRATION OF JUSTICE AND JAILS AND CONVICT SETTLEMENTS, TOTALED \$48.7 MILLION, SOME 44 PERCENT ABOVE THE BUDGET ESTIMATE OF \$33.8 MILLION. THESE ARE TO COST \$50.6 MILLION IN 1976/1977.

FACTORS ACCOUNTING FOR THE INCREASES INCLUDE: (A) CALLUP OF ANSARS. DURING THE YEAR, THE ANSARS WERE CALLED UP TO SERVE TEMPORARILY AS REGULAR POLICE (THIS ADDED \$2 MILLION); (B) INCREASED ALLOWANCES. ALL LOWER-GRADE GOVERNMENT EMPLOYEES RECEIVED 25 TAKA PER MONTH INCREASES TO HELP OFFSET THE HIGHER FOODGRAIN RATION PRICES ANNOUNCED DURING THE YEAR; (C) NEW UNITS. THE CREATION OF A NEW METROPOLITAN POLICE AND THE FORMATION OF A 2,500 ARMED POLICE

BATTALION TOWARD THE END OF THE FISCAL YEAR ALSO CONTRIBUTED TO THE INCREASE.

4. TOTAL EXPENDITURES ON DEFENSE SERVICES. WE BELIEVE IT EXTREMELY PROBABLE THAT SIGNIFICANT AMOUNT (PERHAPS \$13 MILLION) INTENDED FOR EXPENDITURE ON THE JRB AND OTHER SUMS FOR RELATED INTERNAL SECURITY ACTIVITIES OF THE MUJIB GOVERNMENT WAS HIDDEN IN CONFIDENTIAL

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THE 1975/1976 BUDGET. ACCORDING TO A UN HICOM OFFICIAL, THE TOTAL AVAILABLE FOR THE MILITARY (EXCLUDING POLICE ACTIVITIES) IN THAT BUDGET MIGHT HAVE AMOUNT TO TAKA 1,400 TO 1,500 MILLION (\$88 TO \$100 MILLION) AND THAT AFTER AUGUST 15 ONLY AN ADDITIONAL 100 MILLION TAKA WAS ADDED. ON THIS BASIS, MILITARY EXPENDITURES DURING 1975/1976 WERE ONLY 5 TO 7 PERCENT ABOVE THE AMOUNTS ORIGINALLY AVAILABLE IN THE BUDGET. HE ALSO BELIEVES THAT THE FY 1977 BUDGET INVOLVES AN IMPORTANT PROCEDURAL CHANGE, WITH THE \$103 MILLION SHOWN FOR DEFENSE SERVICES COVERING ONLY MANPOWER EXPENSES, SUCH AS SALARIES,

ALLOWANCES, HOUSING AND FOOD, WHILE THE BULK OF EQUIPMENT COSTS ARE NO LONGER INCLUDED. ON THIS BASIS, SUCH COSTS WOULD BE HIDDEN ELSEWHERE, OR SOUGHT FROM ARAB AND OTHER DONORS WHOLLY OUTSIDE THE BUDGET. JUDGING FROM THE CONDITION OF THE BANGLADESH ARMY, EXPENDITURES ON EQUIPMENT CANNOT HAVE BEEN VERY LARGE IN THE PAST FEW YEARS. WE DOUBT THIS EXCEEDED A FEW MILLION DOLLARS IN 1975/1976.

5. FOREIGN EXCHANGE ELEMENT BELIEVED SMALL. THE FINANCE MINISTRY JR. SECRETARY (REVENUE) TOLD ECON COUNSELOR JULY 3 THAT "LITTLE FOREIGN EXCHANGE" WAS INVOLVED IN THE INCREASE. THE IMF DEPUTY RESREP SHARES THIS VIEW, BASED ON THE BDG CASH FOREIGN EXCHANGE EXPENDITURES IN FY 76 AND THE FOREIGN EXCHANGE BUDGET DRAW UP FOR FY 77. APART FROM THE PROSPECTIVE PURCHASE OF A POUNDS STERLING 2 TO 3 MILLION UK FRIGATE, PAYABLE OVER FIVE YEARS, WE KNOW OF NO SIGNIFICANT PURCHASES OF MILITARY EQUIPMENT MADE DURING THE YEAR, ALTHOUGH SOME CONTRACTS FOR TRANSPORT AND COMMUNICATIONS EQUIPMENT, AGAIN PAYABLE OVER MORE THAN ONE FISCAL YEAR, WERE ENTERED INTO. OUR HICOM SOURCE STATES FLATLY THAT HE KNOWS THERE WERE NO REPORTED PURCHASES OF LARGE EQUIPMENT (E.G. TANKS, PLANES, SHIPS) DURING THE YEAR. WE AGREE. WHATEVER RELATIVELY MODEST AMOUNTS MAY BE CONCEALED FOR EQUIPMENT PURCHASES IN THE 1976/1977 BUDGET, THERE WERE NO IMPORTANT SUCH EXPENDITURES IN FOREIGN EXCHANGE IN 1975/1976, ALTHOUGH SOME THREE MILLION DOLLARS WAS COMMITTED (IN LETTERS OF CREDIT AND BANK TRANSFERS) IN THE CLOSING DAYS OF JUNE (I.E., IN FY 76) FOR COMMUNICATIONS AND OTHER MILITARY EQUIPMENT FROM THE US AND THE UK.

6. GENERAL. DURING TEN AND A HALF MONTHS OF FY 76, BANGLADESH HAS BEEN HEADED BY GOVERNMENTS INSTALLED BY THE MILITARY, MANY OF WHOM BELIEVED THAT THE REGULAR ARMED FORCES HAD RECEIVED LESS THAN

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THEIR DUE UNDER SHEIKH MUJIB. THAT SUCH GOVERNMENT SPENT MORE ON THE MILITARY IS HARDLY SURPRISING. THESE GOVERNMENTS HAVE ALSO BEEN MORE EFFECTIVE IN DEALING WITH SMUGGLING AND THE LAW AND ORDER SITUATION THAN THE MUJIB GOVERNMENTS WHILE THE COUPS D'ETAT THEMSELVES INVOLVED EXPENDITURES UNFORESEEN BY BUDGET FRAMERS. HOWEVER, THE INCREASED LEVELS CONTINUE IN FY 1977 AND MUST NOW BE REGARDED AS PERMANENT. THE PRESENT MARTIAL LAW REGIME IS EXTREMELY SECURITY CONSCIOUS, FEARFUL OF BOTH DOMESTIC INSURRECTION AND FOREIGN INCURSIONS, AND HAS MADE THE DEVELOPMENT OF ITS DEFENSE AND SECURITY FORCES A PRIMARY CONCERN. IN ADDITION, THE CONTINUED EXISTENCE OF THE REGIME DEPENDS UPON THE ARMY AND THE MLA NATURALLY WISHES TO ENHANCE ITS PERQUISITES.

7. CONCLUSION. TOTAL DEFENSE AND LAW AND ORDER EXPENDITURES IN THE REVISED BUDGET ESTIMATES FOR 1975/1976 THUS AMOUNTED TO 2.4 PERCENT OF GDP (USING THE IMF FIGURE OF TAKA 90.7 BILLION). THIS IS A LOW PORTION BY INTERNATIONAL STANDARDS, BUT THE DEFENSE SERVICES PORTION (ABOUT \$100 MILLION) STILL REPRESENTS AN ABSOLUTE AMOUNT THIS POOR NATION CAN ILL AFFORD. HOWEVER, SO LONG AS THE BDG IS DOMINATED BY MILITARY LEADERS THIS EXPENDITURES LEVEL SEEMS LIKELY TO BE MAINTAINED. YET GIVEN THE OPPORTUNITIES FOR TAKING SHORT-RUN ADVANTAGE OF THEIR POWER, THE MILITARY TO DATE APPEARS ALMOST SURPRISINGLY TO HAVE KEPT THEIR SPENDING WITHIN REASONABLE LIMITS. THE SEARCH FOR FOREIGN ARMS CONTINUES UNABATED, HOWEVER, AND THIS COULD BRING FURTHER BUDGET INCREASES IN THE FUTURE.

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